BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING
(PROPOSAL SIX)

Docket No. RM2017-10

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-12 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**
(September 13, 2017)

The United States Postal Service hereby provides its response to

Questions 1-12 of Chairman's Information Request No. 2, issued September 7, 2017.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

_____
Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
eric.p.koetting@usps.gov
September 13, 2017

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

1. Please refer to Library Reference USPS-RM2017-10/NP2, Excel file "PROP.6.ChIR.1.NP15.xlsx," worksheet "PS Data," and Excel file "Parcel.Select.Data.xlsx."

   a. Please confirm that the following cell references are correct with both Excel files open:

      i. Cells B8:B10

      ii. Cells B18:B20

      iii. Cells B42:C43

   b. If confirmed, please explain the differences in the values of these cells between Excel file "Prop.6.CHIR.1NP15.xlsx" in Library Reference USPS-RM2017-10/NP2 and Excel file "PROP.SIX.USPS-FY16-NP15.xlsx" in Library Reference USPS-RM2017-10/NP1.

   c. If part a. is not confirmed, please file a corrected version of the model.

RESPONSE:

(a) Not confirmed. When the nonpublic disclaimer was added at the top of each tab in the Data file after the links had already been incorporated in the model files, sheet rows were inserted that disrupted the linkages. A new version of the Data file is provided under seal in USPS-RM2017-10/NP3 in which the nonpublic disclaimer has been moved to the bottom of each tab, and the linkages in the cost models in NP2 should operate correctly (i.e., as intended when NP2 was filed) when those files are opened with the new version of the Data file in NP3. As noted and described in response to Question 6 of this Information Request, some additional minor changes have been made in a further revised version of the NP15 model also being provided in NP3, and the linkages in that version should also operate correctly with the new version of the Data file in NP3.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

(b) Unrelated to the linkage problem discussed in response to subpart (a) of this response, the figures originally filed in cells B8:B10, B18:B20, and B42:C43 in the 'PS Data' worksheet in the file 'PROP.SIX.USPS-FY16-NP15.xlsx' in USPS-RM2017-10/NP1 were incorrect. These errors were among the "slight discrepancies" mentioned in the August 30, 2017 response to Question 1 of ChIR No. 1 in this docket, and were corrected in the same cells of the same worksheet in the file 'Prop.6.ChIR.1.NP15.xlsx' in USPS-RM2017-10/NP2.   In addition, the figures in cells B42:B43 were modified, as described in the response to ChIR No. 1, question 2(b), to include ONDC and NDC presort volumes in order to be consistent with how those data were treated elsewhere in the mail processing cost model.

(c) Please see the response to part (a).

2.   Please refer to Library Reference USPS-RM2017-10/NP2, Excel file "PROP.6.ChIR.1.NP16.xlsx," worksheet "CFM By Zone" and Excel file "Parcel.Select.Data.xlsx."

   a.   Please confirm that the references in cells B7:C13 are correct when both Excel files are open.

   b.   If not confirmed, please file a corrected version of the model.

RESPONSE:

Please see the response to Question 1(a) of this Information Request, and the new

version of the Data file provided under seal in USPS-RM2017-10/NP3.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

3.   Please refer to the Postal Service's Responses to CHIR No. 1, question 5.[1] The
Postal Service states that storage costs "no longer serve any pricing purpose."
Please confirm that the Postal Service continues to incur costs associated with
Parcel Return Service (PRS) parcel storage.

     a.   If confirmed, please state the cost component into which storage costs fall.

     b.   If not confirmed, please explain why PRS parcels no longer incur storage
costs.

RESPONSE:

Partially confirmed.

(a) Like any postal product, Parcel Return Service (PRS) mail pieces may incur space

costs that, should the mail pieces remain stationary long enough, might be considered

to be storage costs. In the original PRS cost study filed in Docket No. MC2003-2, the

storage costs were explicitly estimated due to the fact that the mail pieces had to be

staged for multiple days until the returns agent retrieved them. As witness Kiefer stated

in that docket:

> The Postal Service does not want its delivery facilities to become long-
> term holding areas for returned parcels, particularly large parcels, since
> space is typically tight at these units. Witness Gullo describes the pickup
> schedules that customers will be required to observe to avoid this problem
> (USPS-T-1, Section VII). During the experiment, the Postal Service will
> monitor the situations at RDUs where the return parcels will be picked up,
> and modify schedules as needed to eliminate any space problems that
> arise. If monitoring shows that the size and weight profile has tilted
> unacceptably toward large and heavy parcels, the Postal Service could

---

[1] Responses of the United States Postal Service to Questions 1-13 of Chairman's
Information Request No. 1, August 30, 2017 (Responses to CHIR No. 1).

adjust the rate design accordingly at the time it may request a permanent classification.[2]

Mail piece storage has not proven to be an issue in today's PRS operating environment. The returns agent typically picks up the mail pieces at the same time that dropshipments are entered at postal facilities. Consequently, the storage costs portion of the cost study no longer serves a pricing purpose and can be removed.

In addition, the original cost study was developed at a time before the PRS costs were reported separately in the Cost and Revenue Analysis (CRA). The PRS costs that are currently reported in the CRA do include space costs, which can be found in the following cost segments and components: 11.1.1 (Custodial Personnel), 11.1.2 (Contract Cleaners), 11.3 (Plant & Building Equipment Maintenance), 15.1 (Rents), 15.2 (Fuel and Utilities), 15.3.2 (Building Projects Expense), 16.3.1 (Custodial and Building), 18.1.4.1 (USPS Security Force), 20.3 (Building & Leasehold Depreciation), and 20.5 (Interest Expense).

(b) Not applicable.

---

[2] Docket No. MC2003-2, USPS-T-3 at 5 (April 28, 2003).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

4.   Please refer to the Postal Service's Responses to CHIR No. 1, question 13 (c)i and the Library Reference USPS-RM2017-10/NP1, Excel file "PROP.SIX.DATA.xlsx," worksheet "Calculation of PS Percentage." In its response, the Postal Service states that "TRACS is not able to provide an estimate of the small percentage of additional unexpected legs on a transportation mode for price categories where that transportation mode is already expected to occur frequently." Please discuss the advantage(s) of the Postal Service's approach of using the percentages in cells B70:D73 to attribute costs via the expected/unexpected leg methodology versus using the percentages to attribute costs for each contract type to each rate category directly.

RESPONSE:

The percentages in cells B70:D73 represent the percentage of pieces (volume) by rate category found on each contract type. It would not be appropriate to distribute transportation cost based directly on volume, since transportation cost is not uniform for each individual mail piece. For example, pieces that are larger incur more transportation cost because they take up more space on the vehicle. Using the expected/unexpected leg methodology allows the incorporation of total cubic feet for each rate category (see worksheet "Cost Dist PS"), which is a more appropriate method of allocating the transportation cost to each rate category. In addition, due to small sample sizes, rate categories with low volumes and low usage of contract types would have unstable cost estimates[3]. The expected/unexpected leg approach combines the advantage of stable cost estimates from using the model assumptions for normal operations together with

---

[3] See workbook PROP.SIX.DATA.xlsx, sheet "Calculation of PS Percentage", cells B46:F49 in USPS-RM2017-10/NP1 for the number of samples in FY16 by rate category and contract type.

supplemental sample-based information for situations outside of normal operations, and

accounts for the different cube for the separate rate categories.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

5.   Please refer to the Library Reference USPS-RM2017-10/NP1, Excel file
"PROP.SIX.DATA.xlsx," worksheet "Calculation of PRS Percentage." Please
discuss the advantage(s) of the Postal Service's approach of using the
percentages in cells B66:D68 to attribute costs via the expected/unexpected leg
methodology versus using the percentages to attribute costs for each contract
type to each rate category directly.

RESPONSE:

The percentages in cells B66:D68 represent the percentage of pieces (volume) by rate

category found on each contract type. It would not be appropriate to distribute

transportation cost based directly on volume, since transportation cost is not uniform for

each individual mail piece. For example, pieces that are larger incur more transportation

cost because they take up more space on the vehicle. Using the expected/unexpected

leg methodology allows the incorporation of total cubic feet for each rate category (see

worksheet "Cost Dist PRS"), which is a more appropriate method of allocating the

transportation cost to each rate category. In addition, due to small sample sizes, rate

categories with low volumes and low usage of contract types would have unstable cost

estimates[4]. The expected/unexpected leg approach combines the advantage of stable

cost estimates from using the model assumptions for normal operations together with

supplemental sample-based information for situations outside of normal operations, and

accounts for the different cube for the separate rate categories.

---

[4] See workbook PROP.SIX.DATA.xlsx, sheet "Calculation of PRS Percentage",
cells B42:F45 in USPS-RM2017-10/NP1 for the number of samples in FY16 by rate
category and contract type.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

6. Please refer to Library Reference USPS-RM2017-10/NP2, Excel file "PROP.6.ChIR.1.NP15.xlsx." Please provide an operational explanation for why the value of cell J39 in worksheet "M-DNDC-5D" would be expected to be larger than the value of cell J31 in worksheet "IR-DNDC-5D."

RESPONSE:

In answering this question, minor errors were discovered in five of the cost model worksheets. In the 'M-DNDC-5D' worksheet, the tasks in rows 18, 19 and 21 should be deleted as mail pieces that are sorted to the P&DC level on the Sack Sorting Machine (SSM) are generally sorted into OTRs. The 'IR-DNDC-SCF' worksheet, the 'IR-DNDC-5D' worksheet, the 'IO-DNDC-SCF' worksheet, and the 'IO-DNDC-5D' worksheet were all missing two SSM induction tasks. These tasks have now been added to rows 13 and 14 in each worksheet. A new version of the mail processing cost model can be found in the file 'Prop.6.ChIR.2.NP15.xlsx' in USPS-RM2017-10/NP3. The overall impact of these revisions is not substantial.

Once these adjustments have been made in the mail processing cost model, the model cost estimate in cell J39 the 'M-DNDC-5D' worksheet decreases minimally, while the corresponding estimate in cell J31 in the 'IR-DNDC-5D' worksheet increases by a somewhat larger amount, such that it is now larger than the J39 value. Thus, with these revisions, the apparent anomaly cited in the question no longer exists. The relatively small remaining cost difference is due to the fact that the mail arrival profile data and conversion factor data differ for these two mail types.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

7.   Please refer to Library Reference USPS-RM2017-10/NP2, Excel file "PROP.6.ChIR.1.NP15.xlsx," worksheet "Summary." Please provide an operational explanation for why the value of cell B26 would be expected to be larger than the value of cell B28.

RESPONSE:

The circumstances described in this question appear to be nothing more than a

manifestation of the linkage problem discussed in response to Question 1(a) of this

Information Request. Using the version of the Data file now being provided in NP3 (in

which the Nonpublic disclaimer has simply been moved to the bottom of each sheet),

this apparent anomaly should disappear, as the value in cell B26 is less than the value

in cell B28 (as it was before any attempt was made to link the files in response to ChIR

No. 1).

8. Please refer to Library Reference USPS-RM2017-10/NP2, Excel file
"PROP.6.ChIR.1.NP16.xlsx," worksheets "Volumes" and "Trans Inputs PS."
Please indicate whether Parcel Select Lightweight volumes and transportation
costs are included in the Parcel Select transportation model. If not included,
please identify where Parcel Select Lightweight transportation costs are
modelled.

RESPONSE:

The 'Volumes' worksheet does not include volume figures for Parcel Select Lightweight

(PSLW) mail pieces. The Parcel Select transportation cost figures contained in the

'Trans Inputs PS' worksheet exclude the costs associated with PSLW mail pieces.

PSLW transportation costs are not currently estimated in any cost model that is filed in

the annual compliance report (ACR).

Prior to being reclassified as PSLW mail pieces, the Standard Mail (now USPS

Marketing Mail) Commercial machinable and irregular parcels transportation cost

avoidance estimates were developed in the destination entry cost model (most recently

filed in Docket No. ACR2016, USPS-FY16-13). Cost avoidance estimates for DNDC,

DSCF, and DDU mail pieces were estimated in that model. The methodology relied

upon in that cost model was not identical to the methodology relied upon in the Parcel

Select / PRS transportation cost model (most recently filed in Docket No. ACR2016,

USPS-FY16-NP16). The latter cost model contains cost per cubic foot estimates that

were developed using an econometric equation. This equation was derived using

volume and cubic feet data by pound increment for mail pieces weighing up to seventy

pounds. In addition, some Parcel Select and PRS prices are zoned.

In contrast, PSLW mail pieces weigh one pound or less, and none of the prices are zoned. Given these differences, the PSLW volume and transportation cost data are not currently incorporated into the Parcel Select / PRS transportation cost model because the methodology relied upon in that model is not applicable to PSLW mail pieces.

9. In the Petition, the Postal Service mentions certain assumptions underlying the mail flow models used for Full Network PRS mail processing costs. Please provide operational or empirical justifications for the assumptions in the following text:

a. "These mail flow models are the same as those used for Parcel Select Ground, with the exception that it is assumed that the customers enter the return parcels at a delivery unit." Petition at 4.

b. "The number of Full Network active scans required before each PRS mail piece is delivered to the recipient is assumed to be one, which is the same as the number of active scans required for return sectional center facility (RSCF) PRS. It is also assumed that the postage due costs would be identical to those incurred for RSCF." Petition at 4-5.

RESPONSE:

(a) Unlike RSCF and RDU PRS mail pieces, Full Network mail pieces bear labels that contain physical addresses. These mail pieces are processed through the postal network until they reach the destination delivery units that serve those addresses where, like all other parcels, they are sorted in the manual incoming secondary operation. This process flow is similar to that of Parcel Select Ground.

In the mail processing cost model, PostalOne! data are used to estimate the percentage of Parcel Select Ground mail pieces that are entered at delivery units, P&DCs, and NDCs. There are no such data specific to PRS Full Network mail pieces. Given that PRS mail pieces are typically tendered by the returning customer to carriers or window service clerks, or are placed directly into drop boxes, it is assumed that all Full Network mail pieces are entered at delivery units.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

(b) The average Full Network PRS mail piece would be scanned more often than the average RSCF mail piece, but most of those scans would be passive in nature and would be performed as the Full Network mail pieces are processed, like any other parcels, through postal operations. Once both Full Network and RSCF mail pieces are isolated from the residual parcel mail stream as PRS mail pieces, they would receive one active scan which basically indicates that the mail is ready to be tendered to the PRS returns agent.

Postage due clerks do not weigh and rate each individual PRS mail piece in order to determine the correct postage that should be charged to the recipient. Since the inception of the PRS product, all PRS recipients have been required to develop and install a returns manifesting system at a facility where the postage due for the returned parcels can be calculated.[5] The postage due costs that are currently contained in the Full Network, RSCF, and RDU mail flow models all reflect returns manifesting postage due costs.

---

[5] Docket No. MC2003-2, Direct Testimony of John Gullo, USPT-T-1 at 8-9 (April 28, 2003).

10.   Please indicate whether the Full Network mail flow models have been specifically
developed for PRS or whether they are based on similar existing models for
other mail products. Please list these products if applicable.

RESPONSE:

There are currently no available mail characteristics or processing statistics specific to

PRS Full Network mail pieces. As described in the response to Question 9 of this

Information Request, the process flow for Full Network mail pieces is similar to that of

Parcel Select Ground, with the exception that it is assumed that all Full Network mail

pieces are entered at delivery units by the returning customers. The mail flow models

were specifically developed for PRS, but in the absence of better data, some Parcel

Select data (e.g., conversion factors, Intra-NDC volume percentage) are used as inputs

to the Full Network models.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

11. Please refer to the Postal Service's Responses to CHIR No. 1, question 10 and the Library Reference USPS-RM2017-10/NP1, Excel file "PROP.SIX.DATA.xlsx," worksheet "TRACS-LONG DISTANCE," cells B17:E18. The Postal Service explains that percentages presented in these cells "were calculated using TRACS data from FY16 and a mapping of NDCs to the 3-digit ZIPs they service."

    a.   Please indicate whether the Postal Service would anticipate the calculated percentages to be different if TRACS data for a different year were used. Please explain why or why not.

    b.   Please indicate whether the Postal Service intends to periodically recalculate the provided percentages. Please explain why or why not.

    c.   Please confirm that the methodology the Postal Service applies in the calculation of the provided percentages does not include any estimation of the actual distance between the origin/destination facility (where each Parcel Select mailpiece is loaded/unloaded) and the NDC that serves it. If not confirmed, please explain.

RESPONSE:

(a) The calculated percentages could be different if TRACS data for a different year were used. These percentages may change due to operational changes with the routes for each contract type.

(b) The Postal Service intends to recalculate the provided percentages annually.

(c) Confirmed.

12.   Please refer to the Postal Service's Responses to CHIR No. 1, question 13 (a)i and (c)i. The Postal Service states that "[t]he transportation costs for the unexpected transportation legs would always be assumed to be zero, as under the current methodology. The analysis filed with Proposal Six invalidates this assumption, since destination-entry parcels were identified on these unexpected legs of transportation during TRACS tests." *Id.* question (a)i.

   a.   Please discuss the operational circumstances that precipitate unexpected transportation legs.

   b.   The Postal Service also states that it has "maintained the assumption from the previous cost model that DNDC and DSCF pieces receive one leg of local transportation. TRACS is not able to provide an estimate of the small percentage of additional unexpected legs on a transportation mode for price categories where that transportation mode is already expected to occur frequently." *Id.* question (c)i.

   i.   Please provide all available support for the assertion that the percentage of unexpected legs for the price categories is small.

   ii.   Please confirm that failing to account for these unexpected legs will increase the costs attributed to rate categories for which unexpected legs are estimated. If not confirmed, please explain.

RESPONSE:

(a) Unexpected transportation legs may occur due to mail pieces being forwarded, returned, or mis-sent.

(b)i. The percentage of Parcel Select mail pieces with a forwarded or returned scan event, according to the Product Tracking and Reporting (PTR) system, for each rate category are provided below. These percentages are less than 1 percent for each rate category, which supports the assertion that the percentage of unexpected legs for all price categories is small. Note that not every forwarded, returned, or mis-sent mail piece will result in all possible unexpected legs of transportation. For example, if the piece is

being returned to a neighboring ZIP Code then the piece would not incur long-distance

transportation or intermediate transportation.

Rate Category	Percent with Forward or Return Scan
Ground	0.59%
DNDC	0.70%
DSCF	0.60%
DDU	0.24%

(b)ii. The average number of unexpected legs are estimated as 0.021 for local

transportation, 0.013 for intermediate transportation, and 0.004 for long distance

transportation. If the average number of "expected" legs were thus hypothetically

increased by the same amounts (e.g., the average number of local legs traveled by a

DNDC parcel increased from 1.000 to 1.021 and the average number of intermediate

legs increased from 1.000 to 1.013), the cost per cubic foot for each rate category would

change by at most $0.01. In other words, attempting to incorporate these additional legs

would not appear to have a material impact on the transportation cost for any product.